



Varig: the Brazilian survivor

Varig shares the view of many international airlines that the present economic situation does not support rapid or even positive expansion. The 1983 annual report, which has just been presented, starts by attributing the decrease in passenger and cargo traffic—both domestic and international—to gross devaluation and inflation. There was a corresponding effect on the balance sheet of overseas loan interest and repayments.

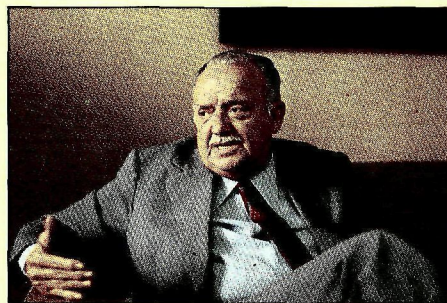
On paper Varig makes a marginal profit; but with an unbelievable 290 per cent currency devaluation in February and inflation accounting to match, it is difficult to assess the meaning of this.

The situation of the Brazilian international flag carrier is affected primarily by two things: close regulation by the State of the internal fare levels of the three majors—Varig, VASP and Transbrasil, and the continuing decrease in the discretionary income of the average Brazilian. The first sets fare levels that aim to be in keeping with the nation's standard of living, and this process inevitably lags behind inflation levels which are in double figures on a monthly basis. The second means that the potential market from within Brazil is limited.

It is significant that Varig does not intend, in the near future, to expand operations with its two Airbus A300-B4s up along the east coast. Internal load

factor dropped from 72 per cent in 1982 to 67 per cent in 1983, but the situation is now regarded as "stable". It is also significant that the company is convinced that even highly discounted international fares will not generate any more revenue from the Brazilian end.

Varig will survive. There is no doubt of that. But it fights for success in an immeasurably indebted nation where the value of currency seems meaningless. **Harry Hopkins** reports from Rio de Janeiro on how an airline works in Brazil.



Top The Varig 747 and DC-10 are photographed at the airline's international base, Rio de Janeiro's Galeao International Airport. **Above** Varig's president, Helio Smidt, at the carrier's Santos Dumont headquarters

Discussions are under way between South America and Europe on tariffs to try to stimulate traffic between the two continents. On the important US-Brazil routes, however, "special fare" tariffs are hampered by the anti-trust laws, Varig says.

On the other hand, Varig must still look ahead to its long-term fleet requirements, which presently focus on 1988-89. These pivot at present on the possible purchase of extra 747s, particularly a variant with improved engines and operating economy. The 1983 report also refers to an investment programme of \$28 million on aircraft and engine modification for economy and efficiency. Varig has been particularly satisfied, nevertheless, with the CF6-50 engines which power its 747s, DC-10s, and A300s among the total Varig/Cruzeiro fleet of 63 aircraft.

Other fleet planning hinges largely on these aims. The greater preference by far would be, following the acquisition of extra 747 capacity, to transfer some DC-10s to internal routes (four are fully paid for). In

turn this would release written-down 737s for redeployment; Varig has 12. The three majors together use more than 30 of this type in the Brazilian arena.

The first move depends on an upturn in the overall world economy, together with positive trends in the Brazilian economy. The latter is important if DC-10 capacity is to be put on internal routes.

A consequent redeployment of 737s on to the "air bridge", between Brazil's two major cities—Rio de Janeiro/Santos Dumont (population 9.5 million) and Sao Paulo (13 million)—is remaining under study. The economics of such an operation, with the advanced 737-200s and their JT8D-17 engines, is not unattractive; the 737's fuel operating costs are only marginally up on those of the Lockheed Electra IIs, of which 12 are presently in use on services at intervals of less than half an hour.

Two evident problems remain to be solved: the 737 would need more runway at Santos Dumont, and consequent effects on obstacle clearance would have to be re-assessed. The noise level of the 737 close to the city centre would meet resistance.

Props to jets?

In fact, there is no real need to alter the present arrangement, where Varig is the largest operator of Electras in a passenger configuration (Zantop uses twice the number, but on pure cargo operations). The aircraft are written-down, quiet and economic; they are readily used by passengers and regarded as comfortable; they are compatible with an average utilisation of just over 4½ hr a day—and with the current controlled fare level CR\$55,000 (£37). Lockheed presently promises continued support, which would mean an "indefinite" life.

There is agreement that the British Aerospace BAe 146 has a field noise performance that fits Santos Dumont well, and that it matches the direct operating costs of the Electra. The crucial question of financing new purchases, and of loan interest, must be additionally set against the modest level of utilisation that is practical—and against the low per-seat revenue generation. For purchases generally Varig wants fixed interest loans, such as were negotiated for the leased 747s.

International revenue is about three quarters of total income. Cargo provides 22 per cent of total revenue and 62 per



At the moment Varig uses Lockheed Electras to fly its Rio de Janeiro-Sao Paulo "air bridge" services from Rio's downtown Santos Dumont Airport. Because they are written-down, a low utilisation rate does not matter, which makes a decision on their replacement by 737s difficult

cent of that is export freight. The latter increased 9 per cent last year and appears to be increasing this year. Varig rates as very successful its experience of using the 747 Combi on the New York route, where it expects to carry a regular 40 tonnes; Paris and Frankfurt also figure well as freight destinations. The six 707 pure freighters are still used.

On the passenger front, further major ventures into Central America and the Caribbean, which were under study at the beginning of 1983, are regarded as commercially premature. Port of Spain and Bridgetown continue to be served once a week by Cruzeiro 737. Recently, however, Santo Domingo has had one of the Miami Varig DC-10 services routed through weekly. Rio-Costa Rica, stopping only at Panama, has also been added. Panama and Mexico city support twice-weekly services.

Brazil's Varig sees itself as a natural leader in traffic between the parallel continents of South America and Africa—a concept which is strongly supported by the Government, on ethnic and cultural grounds. Last year Varig extended its Rio-Luanda route through to Maputo. It is

intended that the airline should route services through Abidjan in the near future—a natural focus and "oasis" for its African traffic.

Varig is proud of its independent control by the "Employees' Foundation". Capital majority is held by this foundation of employees and executives. In fact in 1975 it acquired control of Cruzeiro as well. Varig has the maturity to strengthen it. It began operations in 1927, since when it has absorbed the domestic carrier Aero Geral, the Real consortium and, in 1965, the international routes and equipment of Panair do Brasil. It sees itself as a leader in South America, but a cautious leader of 56 years' standing. Its view on deregulation is halfway; it wants to maintain realistic internal tariffs, and to avoid unproductive deep discounts and low yield internationally. It wants to remain free to sell its product—the perishable seat offered.

Dollar income in 1983 was \$880 million: \$690 million from international routes, and Varig expects the same earnings for 1984. With 17 widebodies, the company sees itself as waiting—but with a good margin for potential expansion. ◻

The Brazilian airlines operate some 30 737s between them



Varig performance		
	1982	1983
Hours Flown	126,017	117,673
Kms Flown (000)	90,531	85,598
Pax Carried (000)	4,730	4,452
		(Dom 1,371)
		(Int 3,081)
Seat km Offered (M)	14,687	14,152
		(Dom 3,456)
		(Int 10,686)
Pax km Flown (M)	9,810	9,290
		(Dom 2,339)
		(Int 6,951)
Load Factor (per cent)	67	66
Ton km Offered (M)	2,716	2,666
Ton km Flown (M)	1,468	1,402
Load Factor (per cent)	54	53
Ton km Cargo (M)	580	561
		(Dom 99)
		(Int 462)